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SNBR - Q2 2019 Sleep Number Corp Earnings Call

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OVERVIEW:

Co. reported 2Q19 net sales of $356m and EPS of $0.14. Expects 2019 EPS to be $2.35-2.75.

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PRESENTATION

Operator

Welcome to Sleep Number Q2 2019 Earnings Conference Call. (Operator Instructions) Today's call is being recorded. If anyone has any objections, you may disconnect at this time.

I would like to introduce Dave Schwantes, Vice President of Finance and Investor Relations. Thank you. You may begin.

David W. Schwantes - *Sleep Number Corporation - VP of Finance, IR & Decision Support*

Good afternoon, and welcome to the Sleep Number Corporation Second Quarter 2019 Earnings Conference Call. Thank you for joining us. I'm Dave Schwantes, Vice President of Finance and Investor Relations. With me today are Shelly Ibach, our President and CEO; and David Callen, our Senior Vice President and CFO.

This telephone conference is being recorded and will be available on our website at sleepnumber.com. Please refer to the details in our news release to access the replay. Please also refer to our news release for a reconciliation of certain non-GAAP financial measures and supplemental financial information included in the news release or that may be discussed on this call. The primary purpose of this call is to discuss the results of the fiscal period just ended. However, our commentary and responses to your questions may include certain forward-looking statements. These forward-looking statements are subject to a number of risks and uncertainties outlined in our earnings news release and discussed in some detail in our annual report on Form 10-K and other periodic filings with the SEC. The company's actual future results may vary materially.

I will now turn the call over to Shelly for her comments.

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Good afternoon, and thank you for joining our earnings call. My SleepIQ score was an 83 last night. We have transformed Sleep Number into a purpose-driven company that is delivering proven quality sleep with our life-changing 360 smart beds. The execution of our consumer innovation strategy is linking quality sleep to wellness through smart technology and is translating to superior financial results.

Consumer response to our 360 smart beds has created double-digit demand growth for 4 consecutive quarters, including performance at the high end of our expectations for Q2.

Our operational excellence is apparent in key metrics across our vertically integrated business. For the second quarter, results included, record net sales of $356 million, up 13% over prior year with an 8% comp. Operating income of $7 million versus $2 million the prior year. Earnings per share of $0.14, up 40% over the prior year. And year-to-date operating cash flow of $70 million versus $29 million in the prior year. This robust performance has been fueled by the investments we have made to strengthen our competitive advantages of proprietary sleep innovations, exclusive distribution and lifelong customer relationships. These advantages differentiate Sleep Number in the hypercommoditized marketplace and support our long-term focus on sustainable, profitable growth. They also work synergistically across our business to drive top quartile financial results.

Here is an example of how these advantages are making a difference for our customers. Lee from Louisiana said, "We are so happy with our Sleep Number bed. This is genuinely a comfortable mattress. We had no idea how much our previous mattresses were lacking in support and comfort. Not to mention, it is a smart bed, the ability to track our sleep patterns, breathing and heart rate has really made a difference and made us aware of how important sleep is and what problems we need to address. Best purchase we've ever made." Thousands of customers are already benefiting from the 360 smart beds life-changing quality sleep, which embodies our first competitive advantage of proprietary sleep innovations.

Building our multifaceted marketing communications, around our compelling differentiated product experience has resulted in brand health, customer satisfaction and product ratings that are on -- that are at unprecedented levels.

We optimize our proprietary media tools through testing and refinement. Investing in this strategy is driving more qualified traffic online into our stores. Our mission-driven sleep professionals are converting at record levels, highlighting our second competitive advantage of exclusive distribution. While continually enhancing our online experience, we have also opened 61 new stores in the last 12 months. These openings are a combination of net new stores and highly productive relocations as we evolve and expand our portfolio of stores.

Our average revenue per comp store is now $2.8 million on a trailing 12-month basis. Our third competitive advantage involves both acquiring and retaining customers by developing lifelong relationships. These passionate insiders play a central role in our future sales.

Today, nearly 2/3 of consumers prefer to do business with companies that have a purpose, brands that reflect their own values and beliefs. We see this manifested in our strong consumer engagement and purchase consideration. Our purpose-driven brand has resulted in a deeply engaged community of vocal advocates. Our insiders start the relationship with our dedicated sleep professionals, followed by love of their Sleep Number beds and related products. We strengthen this relationship through daily interactions with our proprietary SleepIQ technology. Customers' stories are then amplified through Sleep Number's award-winning digital loyalty program InnerCircle and through social media platforms. The most recent SleepIQ software update now enables our customers to connect to InnerCircle with one click on their SleepIQ app.

Our brands beloved status is resulting in referral and repeat sales that are driving over 45% of our business. This brand advocacy is perhaps the most difficult part of a business to develop. And it is also one of our most important strengths. We are excited about the numerous advances in our loyalty program for the balance of the year and beyond.

Our innovations, exclusive distribution and lifelong relationships are the building blocks to sustain profitable growth in this marketplace. With our strong first half performance, we raised the low end of our EPS guidance by $0.10, resulting in a revised range of $2.35 to $2.75. This reflects a 22% to 43% EPS growth over the prior year.

Here are 5 specific initiatives that give us confidence for strong back half performance as we lap the double-digit adjusted sales growth from the second half of 2018. One, achieving record levels of customer satisfaction with our 360 smart beds. Our increased retention is growing our insider community, which is now further activated by the integration of our SleepIQ technology and digital InnerCircle loyalty program. This extraordinary advantage is fueling our referral and repeat business and is a key metric for ongoing performance. Two, expanding brand reaching consideration. We are driving higher quality traffic with our "This is not a bed" campaign featuring our Sleep Number 360 smart beds as the hero. We recently introduced new versions of this campaign and are competing aggressively for new customers.

Three, amplifying consumer engagement with Sleep Number through our NFL partnership. Starting year 2 of our partnership, we now have over 1,800 active NFL players sleeping on our beds compared to only about a dozen players at this time last year. We have expanded media, player influence and amplified storytelling initiatives, including a new national TV ad featuring one of the top NFL athletes. This one-of-a-kind partnership is being intensified digitally and in stores with an emphasis on the 32 NFL team markets. Four, advancing our award-winning cohesive digital in-store experience. Our initiatives are driving strong conversion in fueling lifelong relationships with Sleep Number. Our market development strategy is driving both comp and new store growth. We will celebrate the opening of our 600th store in the third quarter and expect to end 2019 with approximately 610 Sleep Number stores nationwide. This represents 5% net new store growth over the prior year.

Five, capturing efficiencies from our vertically integrated business. We continue to refine our operating tools, including analytical and mobile capabilities for inventory, manufacturing, logistics and routing. These advancements are improving our customers' experience, while driving profitability.

I would like to thank our Sleep Number team for their dedication to our mission. Building a purpose-driven company, consistently delivering an unparalleled sleep experience to our customers and ensuring superior shareholder return takes passion, perseverance, courage and teamwork. These values are the hallmark of our consumer innovation culture. With strong trends and steady progressive advancements across our vertically integrated business, we are driving performance. Our strategic consistency and steadfast execution are resulting in life-changing sleep for our customers.

I'll now turn the call over to David, who will provide more details on the quarter and expectations for the remainder of the year.

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Thank you, Shelly. We've emphasized how the changes we've made to this business would reveal the power of our EPS drivers through a combination of top line growth, accelerated leverage and capital deployment. In 2017 and 2018, we grew sales an average of 8% per year while delivering average EPS growth of 32%. Our initiatives in 360 smart beds have accelerated performance through the first half of 2019, resulting in 11% net sales growth, 38% net operating profit growth and 48% growth in diluted earnings per share. And our capital deployment decisions have delivered 16.8% ROIC on a trailing 12-month basis. This is a premium of more than 80% over our weighted average cost of capital.

It is an exciting time to be a Sleep Number shareholder as the investments we have made create the value we envisioned. We expect to deliver compelling total shareholder returns in 2019 with earnings of $2.35 to $2.75, which reflects 33% growth at the $2.55 midpoint.

Second quarter results include net sales of $356 million, which grew 13%, including 8 points of comp growth and 5 points from new stores. ARU for the quarter grew 10%, while units grew 3% on top of the 7% unit growth the prior year.

For the first half of the year, net sales of $782 million are up 11%, including 7 points of comp growth. While sales growth comparisons get tougher in the back half, the continued advancements of our competitive advantages are geared to deliver mid- to high single-digit sales growth the balance of 2019.

Our operating efficiency actions drove 13% incremental operating profit flow-through in the second quarter, while absorbing 55 basis points of incremental incentive comp costs and 30 basis points of tariffs.

We also leaned into our demand generators with a 15% increase in media and a 17% increase in R&D.

Prioritizing investments in our growth drivers continues to deliver leverage for our business model. This approach resulted in 13% top line growth and a 130 basis point improvement in our Q2 net operating profit.

Our gross margin improved 130 basis points year-over-year to 61% in the second quarter. Meaningful tailwinds in Q2 included 80 basis points from eliminating the transition impacts incurred the prior year and 100 basis points through operating efficiency gains and pricing.

Headwinds in Q2 included 30 basis points of tariff impacts and 20 basis points from delivery cost inflation. We expect the execution of our plans to improve our full year gross margin by approximately 100 basis points.

With the 13% top line growth, for the second quarter, we delivered a 40% increase in diluted earnings per share. This included $0.04 of tax benefits this year versus $0.08 in last year's results. We expect a 25% income tax rate for the back half of 2019. As Shelly highlighted, we generated $70 million in cash from operations year-to-date. We've adhered to our capital deployment priorities to first invest in the business both directly through the P&L as noted earlier and with $34 million in capital projects year-to-date.

We have also realized tremendous value in the $81 million in shares repurchased year-to-date. Our repurchase program has generated well in excess of mid-teen internal rate of return of over 1, 3, and 5-year measurement periods. Disciplined execution of our plans in Q2 enables support of all our capital priorities in what is historically our seasonally low point for cash generation.

As expected, our leverage ratio at the end of the quarter was 3x EBITDAR with ample liquidity remaining under our $450 million revolving credit facility. For the full year, we continue to expect $50 million to $60 million of capital spending and $125 million to $145 million in share repurchases.

We also expect to operate with leverage in the range of 2.5x to 3x EBITDAR, though we may operate slightly below or above this range for short time periods in support of our business initiatives and seasonality.

As you model the balance of the year, please recall that accelerated demand in the back half of 2018 resulted in a shift of about 1 week of deliveries or about $24 million from Q3 into Q4. Please refer to the non-GAAP reconciliation tables provided with our fourth quarter 2018 earnings release for details.

We are bullish on the future of our business and expect to deliver top tier earnings growth and superior shareholder value in 2019 and beyond.

Jordan, at this point, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John Baugh from Stifel.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Congratulations on a good quarter. Could we maybe talk a little bit about how Memorial Day went how July 4 went? Talk a little bit about the advertising environment, the competitive environment. A competitor this morning said, they felt there was a little less digital marketing going on. I find that little hard to believe. But just curious about how you're navigating. Obviously, a good comp, but still very competitive environment.

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Great. Thanks, John. Well, let me start with perhaps the most important trend for us, which is 4 quarters of double-digit growth since we've transitioned to our 360 smart beds. Secondly, the quarter itself, we, again, had strong consistent performance. And I think the fact that at this point that we have raised the low end of our guidance by $0.10 is a great illustration of our confidence as we head into the back half. You asked also about the media and some of our tactics there. We have been refining and testing the advancement of our proprietary media strategy each quarter. And if you recall, on the April conference call, I spoke specifically about our confidence with some of our initiatives and that we would be leaning into our spend as we head into Q2. And we are really pleased with the results delivering at the high end of our internal expectations. And finally, you asked about the competitive environment and the competitive spend, and we saw a very consistent competitive spend level in Q2 as we did in Q1, actually slightly up. 38% increase in competitive spend in the second quarter, and I think, we had quoted about 30% in Q1. So that is not coming down overall. And I think that just speaks to the effectiveness of our strategies and specifically our innovation.

Operator

(Operator Instructions) Our next question comes from Bobby Griffin from Raymond James.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Congrats on a good quarter. So my first question is more of a high-level type question. But when you look at the ARU growth, it's been nothing but impressive here for multiple quarters. How do you think about the ceiling of ARU going forward, when you look at your current attachment rates and maybe some of the products you have in the R&D pipeline?

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Bobby, great question. And both ARU and units are important to our strategy. And I think really speak to the investments that we've made in our 3 big competitive advantages. The ARU has been coming up nicely, and we expect to continue to get growth from ARU. This is an outcome of the innovations that we're delivering, how the different pieces of the smart bed system work together, and our selling process. Our stores and sleep professionals, their ability to continue to drive up the line, and then I would also highlight our ongoing investment and increase in R&D speaks to how bullish we feel about our innovation pipeline.

Operator

Our next question comes from a follow-up from John Baugh from Stifel.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Shelly, you were emphasizing retention rate and referral, and it sounds like that's ticked up a little bit. Do I understand that currently, #1? And can you speak to, are these customers who may be bought a Sleep Number bed a number of years ago, and they're intrigued by the new offering? Are these people who brought pillows maybe at first and are trading up? Just kind of curious as to what you're seeing with your existing customer base.

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Great. Yes, John. I appreciate this important question. This is important area of growth for us -- and an area of focus in retaining your customers, especially in this world of having a direct relationship between your brand and your customers and the kind of value that customers place on brands today. We want this relationship to be lifelong. So yes, you're seeing growth here and that's what we have expected with our consumer innovation strategy and it's really a key part of SleepIQ technology. With our technology, our customers are now interacting with our brand every single day. And when our customers see their SleepIQ score, they're reminded of the incredible night sleep that our customers are getting from their bed, and therefore, that keeps them highly engaged and referring. So this is a key metric for us. There is growth there. The growth is coming from all of the above. Older customers who are opting in for the new technology as well as customers who maybe entered the brand with a pillow and are now adding the bed, and then, of course, referral. This is the key part of the SleepIQ technology is the referral.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then maybe as a follow-up. Is there any way you can parse out the ARU? I mean, how much was roughly like-for-like pricing, how much maybe adjustables helped, how much mix helped? Any color?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes. John, we have consistently said that we get about 3% from pricing, benefit-driven pricing on an ongoing basis. You recall on the last call, we highlighted that we had taken some pricing at the end of 2018 that we're benefiting from. That said, the biggest driver is the attach rate of our adjustable bases and bedding products as the customer chooses to take a more complete package, as Shelly highlighted, and how those elements work together is a big deal. There's also been in this current year, since we rolled out 360, fewer cases where customers are taking the mattress only and that's helping our ARU, and we see some further opportunity there.

John Allen Baugh - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD*

Okay. And then any update on the assembly sites and the rollout of that nationally?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Sure. We ended the quarter with about 37% or 38% of our deliveries going preassembled mattresses. And as we highlighted, we opened our third distribution -- or assembly distribution center in Baltimore in Q1. We're very pleased with how that location is performing, and we continue to learn and advance the strategy. We've also opened a few other DDCs and those are providing an opportunity for us to limit the number of deliveries that go through the less than truckload LTL carrier network, which reduces the amount of damage, and ultimately, reschedule that we ultimately have with our customers. So we're very pleased. We think that we'll probably have close to half of our beds being delivered, preassembled by the end of the year and continue to see this as an opportunity for margin rate improvement, and most importantly, a better customer experience as we go forward.

Operator

Our next question comes from Brad Thomas from KeyBanc.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Great quarter here. I was hoping maybe just as it relates to the guidance with the strong first half here, you've raised the low end of the range. I guess, as we think about the second half of the year, maybe what's different than how you are thinking about it 90 days ago?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Not much. We really are seeing some -- we've always said that we expected stronger growth in the first half of the year than in the back half. We really like the progression in the business. You can see going from the sequential changes in sales, gross margin, operating profit and EPS that we are getting the kind of acceleration across all the lines that we were looking for as we head into the back half of the year. So we're bullish on the business and feel like we're hitting on all cylinders. We had said that 2019 was the year for us to run clean and that's what we're doing.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

That's great. And so on that theme of running clean, I guess, could you talk a little bit about your confidence in the 360 line? And how long you think maybe this current lineup can last before your next refresh? What's the likelihood that we end up doing a refresh of some kind in 2020 or something that you could stretch out for a few more years?

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Yes, Brad, we stay very focused on making sure that we're broadly relevant to consumers in delivering meaningful value that moves society forward, and feel so strongly about quality, our proven quality sleep that we're delivering with the 360 smart bed and that it's effortless. And our R&D investments in pipeline will continue to build on that. And we today have innovation being pushed every quarter to all of our SleepIQ customers through our software. So that absolutely improves the overall experience on an ongoing basis and then, we will continue to have new advancements in our product, thinking about the smart bed -- the 360 smart bed as the base and the evolution will come off that bed in the future.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

Great. And if I could squeeze one last one in. Synchrony has been a very important partner for you all. Can you talk a little bit about how that's working and where you still think there is opportunity there going forward?

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Yes, and this is such a great illustration of our deep and long and innovative partnerships that yield steady outcomes. And also progressive partnership and relationship, which is important to us. And they've been key partners for us as we evolve, and we see continued upside here, just like we do with ARU growth. It's up to all of us to ensure that we're advancing all aspects of our business to engage consumers and deliver what matters to them. And if you're doing so, you'll continue to see growth and responsiveness, and we see that with Synchrony as well as with our innovations.

Operator

Our next question comes from Peter Keith from Piper.

Peter Jacob Keith - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

I want to ask a longer-term question around store growth. So now that you're at 600 stores and moving higher, have you contemplated any type of international expansion that seems the brand and the product certainly could translate well to other parts of North America? And wondering if you're beginning to contemplate any further expansion in that regard.

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Yes. Peter, that's an important question. Absolutely, our vision is a great indicator of that. Our vision is to become one of the world's most-beloved brands by delivering an unparalleled sleep experience, and that's certainly much broader than the U.S. and an important part of our growth strategy over the next few years.

Peter Jacob Keith - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Okay. Very good. And maybe for David, just on the balance sheet. Looking at the revolver, could you remind us is that at a fixed rate or variable rate? I was just looking at the 10-K and noticed a blended rate of 4.2%.

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes, that's a variable rate.

Peter Jacob Keith - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

So on that note, so you sort of using the revolver to fund your share repurchases with a variable rate, would you at some point look to maybe move towards longer-term debt with some type of term loan, maybe some type of comparable rate than what you have right now?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Peter, we review our capital structure with our board on a regular basis, and even when we were expanding our revolver this last time, we looked at all different types of debt structure. And we think that maintaining maximum flexibility is a priority for this business. We generate a lot of cash, and yet have time periods where there's slower demand. So we want to make sure that we have flexibility and not lock ourselves into a capital structure that looks like that. That's so far, but someday that may change, but right now that's how we think about it.

Operator

Our next question comes from Michael Lasser from UBS.

Atul Maheswari - *UBS Investment Bank, Research Division - Associate*

This is Atul Maheswari on for Michael Lasser. What have you baked in for overall consumer spending in your back half guidance? And is this guidance of mid- to high single-digit sales growth contingent on consumer behavior remaining at say around same place as in the first half?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes. We think the consumer is really healthy, and we expect that to continue in the back half of the year.

Operator

(Operator Instructions) Our next question comes from Seth Basham from Wedbush.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

My question is around gross margins. I may have missed it, but did you call out mix in terms of adjustable attachments being a hindrance to your gross margins this quarter like it has been in the past?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes Seth, that's a good highlight. No, we didn't call it out because we had other things within our mix that help offset that pressure that we have been seeing earlier, especially on a year-over-year basis. So no, that wasn't something we called out as a gross margin rate pressure this quarter.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

Dave, can you provide a little more color around that? Is it within the adjustables? Do you see more of a trade-up or within the mattress line, did you see more of a trade-up?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

We actually saw both. We saw improvement. Remember, Seth, last year in the second quarter, we were closing out our C4, and so that a bit of our mix moved down into the C series last year at this time. Our promotional cadence was a lot different this quarter. And as a result, we moved people up the line in terms of the mattress choices that they made. But we also -- the attachment of our flexible adjustable bases was higher, much higher, but they also attached at the higher end of the three models that we have at a greater rate. So that helps to offset some of that margin rate pressure.

Seth Mckain Basham - *Wedbush Securities Inc., Research Division - MD Of Equity Research*

Got it. That's helpful color. And secondly, I may have missed this as well, but I think, you may have mentioned that conversion might have been at record levels here. Implied mattress unit and comp stores is down slightly. Conversion is strong. That must imply that traffic is down within your comparable stores. What's happening with the consumer and how they're shopping in your stores? Are you seeing less traffic? And is there something you can do to improve that trend?

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Yes. Importantly, our traffic has been very strong and steady for 4 quarters, and our key measurement there is qualified traffic. So there is a difference in quality traffic. And we've been honing in over these last couple of years on quality and qualified traffic. And so we've been really pleased with the results of that media strategy, and obviously, we've been growing our number of new stores and I highlighted in the remarks that we added 61 stores over the last 12 months, that impacts comp and why we stay focused on total growth and total unit growth. And if you look at unit growth in the second quarter, we are up 3% and last year, in the second quarter, we were up 7%. But as we've said, we expect growth from both units and ARU on an annual basis, and looking at this on a quarterly basis, there is going to be fluctuations because of how we drive our promotions. And I think this quarter is a great example of that. Last year, our 7% growth in units was heavily driven by the C series closeout, which also pressured margin and other aspects, where this year, this is all about the 360 smart bed, and we're still expecting growth from units and ARU for the full year and the back half.

Operator

Our next question comes from Curtis Nagle from Bank of America.

Curtis Smyser Nagle - *BofA Merrill Lynch, Research Division - VP*

Just a -- quickly 1, I guess, going back on the debt. So kind of looking ahead at your free cash flow for the rest of the year, 3Q is really a strong quarter. Looking at what I think is left in terms of how much you guys want to buy back, you should have plenty of capacity to do that. Would you guys consider taking some of the debt down in terms of whatever excess cash you have, ex the buybacks or which you would continue to take leverage up a bit?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Curtis this is an important area that we manage carefully, and we have highlighted that we operate with a -- within a range of 2.5x to 3x EBITDAR, and we were at the high-end of that range at the end of our seasonally low-cash generation period here in the second quarter. We expect that as we progress through the balance of the year that, that might come down actually in the range. But we are committed to operating the business relatively conservatively on the debt front or the leverage front and -- but you can count on us using that target range as a guideline.

Operator

Our last question comes from Brad Thomas from KeyBanc.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

A couple of follow-up questions if I could. I think this press release might have been the first time you've broken out the percentage of your stores with sales over $3 million, or maybe you did a quarter ago and I just missed it. But I was hoping you talk a little bit about that.

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Yes. No, this is the first time.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

I was hoping. Shelly, maybe you could talk a little bit more about the qualities of those stores and as you think about maybe not necessarily growing the store base a whole lot more, but store actions, how you think about your portfolio of the stores, and where there might be relocation or renovation opportunities?

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

Well, it is such a key part of our strategy and the ongoing sustainable profitable growth for our business, we believe strongly in having a very healthy real estate portfolio. And I think I gave an example on -- during the annual shareholder meeting video of a store where we did a relocation after being in that marketplace for some time. And that we had experienced a 20% lift in the first 6 months. With simply a move within a few miles, but it speaks to the moving consumer and the marketplace and the value of having a local market development strategy in combination with a national strategy. And staying close to how the consumer is behaving in each marketplace and looking at that total market or total dollars in profit. And what moves need to be made short and long term. We feel strongly about having a healthy real estate portfolio nationwide that is on brand and what we mean by that, is that the brand experience is consistent across the nation. And that we are driving high productivity, driving comps as well as being able to fill in with new stores in markets that we are still developing or markets that are growing. And staying close to that, in all markets, that is the key to us being in this position today where we average $2.8 million over the trailing 12 months for our stores. And we still are growing at all levels. So our largest store is still growing. So we have not peaked out, and I think that speaks to this is -- we're still early in our trajectory both in developing existing stores, adding stores, expanding our markets outside of the U.S.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

That's great. And if I can squeeze in one more for David on guidance and modeling. Over the last few years, there has been a lot of puts and takes and shifts in 3Qs and 4Qs. As we think about these next 2 quarters. Do you have any color for us on how we should think about the balance of your remaining earnings and how that might fall between those 2 quarters?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes. We highlighted that there was a shift last year of $24 million approximately of deliveries that moved from Q3 into Q4, and we provided in the Q4 earnings release, there's a table that reconciles all of our GAAP reported numbers to the non-GAAP performance that we highlighted last year.

That has a lot of details in it, that should help you with your modeling. And we can help put together some other thoughts in our after calls, but generally speaking, the way consensus is looking in the back half looks about in -- directionally in the right place.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

And -- sorry. Shelly.

Shelly R. Ibach - *Sleep Number Corporation - CEO, President & Executive Director*

And I think -- no, I was just going to say, I think this is a good illustration of, David mentioned earlier, running clean in 2019, and just the underlying trends of the business are the underlying trends. We don't have big moving parts, we're driving the performance overall. It's pretty straightforward.

Bradley Bingham Thomas - *KeyBanc Capital Markets Inc., Research Division - Director and Equity Research Analyst*

I think that seasonally, usually, your third quarter is the biggest for sales, and so I think historically, you often had the strongest earnings in your third quarter as well. If you have a somewhat normal second half, is that how things might play out here?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes. That's how I would think about it.

Operator

We have one more follow-up question from Bobby Griffin from Raymond James.

Robert Kenneth Griffin - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

David, have you noticed any change in cannibalization of mattress units when you open up a new store in a market? And is there a rough estimate that you can maybe give us to help us think about how store growth is actually working against in cannibalizing units, and why total units is probably the better metric to look at?

David R. Callen - *Sleep Number Corporation - CFO & Senior VP*

Yes, Bobby that's, that is an ongoing dynamic with this business and with the acceleration of store growth, Shelly mentioned that, we opened 61 new stores in the last 12 months, that's 69% more than we had the prior 12 months. So the amount of cannibalization is meaningful. And we generally see about 20% cannibalization overall and that -- you can assume that's dollars and units.

Operator

I would now like to turn the call back over to the company for closing comments.

David W. Schwantes - *Sleep Number Corporation - VP of Finance, IR & Decision Support*

Thank you for joining us today. We look forward to discussing our third quarter 2019 performance with you in October. Sleep well and dream big.